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MMARS Policy: Payroll

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Mandatory and Voluntary Deductions: Retirement Programs

Executive Summary

Retirement Plans

The Commonwealth of Massachusetts requires that all employees, both state and contract, enroll in a qualified retirement plan. The State Board of Retirement administers the State Employees Retirement System. Membership in the system is mandatory for nearly all state employees who are regularly employed part-time (18.75 hours a week) or greater. In addition to the State Employees Retirement System, the Board of Higher Education has an Optional Retirement Plan for its members in accordance with section 401(a) of the Internal Revenue Code. Contract employees and those who do not meet the membership criteria of either of these programs are required to enroll in the Alternate Retirement Plan (OBRA). Commonwealth retirees do not contribute to any Commonwealth Retirement Plan.

Under Massachusetts Law, the first \$2,000 of combined Retirement and Medicare Withholdings is pre-tax for State Withholding purposes.

Considerations

Retirement Programs:

- The State Employees Retirement System is administered by the State Board of Retirement, the Board of Higher Education Optional Retirement Plan is administered by the Board of Higher Education, and the Alternate Retirement Plan is administered by the Deferred Compensation Unit at the Office of the State Treasurer;
- Are offered to all Commonwealth employees;
- Are available through an employee's payroll office;
- Are deducted in every biweekly pay period;
- Are deducted on a mandatory pre-tax basis; and
- Requires that employees complete State Retirement Board enrollment form.

Forms and additional information can be found on the State Retirement Boards Website at:

<http://www.state.ma.us/treasury/srb.htm>

This policy applies to all Commonwealth Branches and Departments.

Policy

State Employee's Retirement System

An employee's date of hire and rate of pay determine the percentage rate of the biweekly retirement deduction.

State Retirement Board Employee Contribution Rates:

Hired before January 1, 1975	5%
Hired on or between January 1, 1975 – December 31, 1983	7%
Hired on or between January 1, 1984 - June 30, 1996	8%
Hired on or after July 1, 1996 – present	9%
State Police hired on or after July 1, 1996 – present	12%

For those employees hired on or after January 1, 1979 to the present, an additional 2% is deducted for retirement on the amount of the employee's salary that exceeds \$30,000. The judiciary has other additional percentage contribution rates, and salary thresholds, for some members.

According to IRS Publication #575, there is an annual maximum amount that an employee can defer to a qualified retirement plan. If an employee is contributing to other compensation plans (i.e. deferred compensation/tax sheltered annuity) in addition to a retirement plan, all their deferral amounts must be totaled when determining whether the maximum contribution limit has been reached. Any contributions in excess of the annual limit may be taxable to the employee during the calendar year in which the contribution was made.

Board of Higher Education Optional Retirement Plan

The Board of Higher Education Optional Retirement Plan is a defined contribution plan where contributions made by the employee and the Commonwealth are invested in custodial accounts or retirement annuity contracts offered by providers which have been approved by the Higher Education Coordinating Council.

Board of Higher Education Optional Retirement Plan Rates

Hired before July 1, 1996	8%
Hired on or after July 1, 1996 – present	9%

An additional 2% is deducted for retirement on the amount of the employee's salary that exceeds \$30,000.

The amount of annuity income received at retirement will depend on the amount contributed to the retirement annuity contracts, the investment experience of those funds, the employee's age at the time they begin receiving benefits, and the form of annuity payment that was chosen.

Alternate Retirement Plan (OBRA)

The IRS has issued regulations regarding retirement coverage for public employees (both state and contract) who are not members of a State Retirement Plan. The Omnibus Budget Reconciliation Act of 1990 (OBRA) regulation mandates that such public employees participate in an alternate retirement plan after July 1, 1991.

The definitions of types of employees required to contribute to the Alternate Retirement plan include employees who normally work 20 hours or less per week; employees who work on a full-time basis for less than 5 months in a year; and employees performing services for the employer pursuant to a contract of less than 2 years in duration.

The following employees are exempt from coverage, and therefore are not required to contribute to OBRA:

- Individuals hired through programs to relieve unemployment;
- Patients or inmates providing services in a hospital, home or institution;
- Individuals hired on a temporary basis in case of fire, storm, snow, earthquake, flood or other similar emergency;
- Election officials or election workers paid less than \$100 per calendar year;
- Employees of the Commonwealth who are members of the State Retirement System and also work part-time on contract;
- Employees of the Commonwealth who are over age 70, who are members of the State Retirement System and who have elected not to continue to make retirement contributions; and
- Persons who have retired from the Commonwealth and are receiving compensation from the Commonwealth for services performed after retirement;

In addition to the above-listed exceptions, prior exceptions for certain students employed in public schools, colleges and universities remain in effect. Departments should refer to the Office of the Comptroller's Comptroller Memo #159A and 159B, and the PERAC Memo #18/1991 as well as the OBRA Information Kit provided by the Deferred Compensation vendor for further guidance regarding compliance with the 1990 OBRA provisions.

OBRA is considered a deferred compensation plan for tax purposes. The IRS sets annual limits for employees who contribute to deferred compensation plans. Please refer to the current tax year IRS Publication 575 "Pension and Annuity Income" for more detailed guidance as to the annual limits.

Catch-Up Provisions for Alternate Retirement

For those employees close to normal retirement age, there are “catch-up” provisions for Alternate Retirement Plans. For the last three years before the employee reaches normal retirement age, the annual maximum deferral limit is increased to \$15,000 or the employee’s limit for the current year plus the limit from previous years (minus the deferrals for those years), whichever amount is less.

Make-up Retirement for State Employee’s Retirement System

State employees may buy back any prior public service to the Commonwealth that was refunded or public service to the Commonwealth that was provided but which did not have retirement contributions withheld.

Internal Controls

Information Sources

- Related Procedure – None
- Legal Authority
 - IRS Publication 575, “Pension and Annuity Income”
 - The Commonwealth of Massachusetts Higher Education Coordinating Council Optional Retirement Program brochure dated January 1996
 - OBRA Information Kit issued by The Copeland Companies, 1998
 - Comptroller Memo #159A, 159B as amended
 - PERAC Memo #18/1991
 - Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
 - Massachusetts General Laws, Chapter 15, Section 18A
 - Massachusetts General Laws, Chapter 29, Section 64
 - Massachusetts General Laws, Chapter 29, Section 64A
 - Massachusetts General Laws, Chapter 29, Section 64D
 - Massachusetts General Laws, Chapter 32
 - Massachusetts General Laws, Chapter 62, Section 3
- Attachments - None
- Links - None
- [Contacts – CTR Help Desk](#)
- **November 1, 2006** – Removed language referencing Knowledge Center and updated relevant links to Mass.gov/osc portal site.